

Montgomery County Retirement Savings Plan Statement of Policies & Objectives

Montgomery County sponsors the Montgomery County Retirement Savings Plan (“Plan”) to provide eligible participants a multi-employer defined contribution plan. The Plan is mandatory for certain Montgomery County employees and employees of participating agencies.

The Montgomery County Code (“Code”) grants the Board of Investment Trustees (“the Board”) the exclusive authority to manage the assets of the Plan and to select investment options that the Board considers prudent subject to the Standard of Care set forth in Code Section 33-61C. The Code also provides that the Board must invest each participant's account in the Board designated investment options as directed by the participant. The Board adopts this Statement of Investment Policies as a guide to the exercise of its powers and duties in overseeing the investment program of the Plan.

Selection of Investment Options - Board

The Plan’s participants have different investment objectives, time horizons and risk tolerances. To meet these varying investment needs, the Board will provide a diversified slate of investment options, each of which has a different set of risk and return characteristics as disclosed in their fund prospectus. From the options offered, participants can construct a portfolio designed for their retirement needs and risk tolerance.

The Board will select investment options that:

- Cover a risk and return spectrum of appropriate investment classes
- Are distinguishable and have distinct risk and return characteristics
- Are well diversified and professionally managed
- Charge fees that are reasonable for the asset class and investment style
- Maximize return within reasonable and prudent levels of risk

Recognizing that plan participants have different styles of investment, the Board developed the following investment tiers or approaches from which investment options are selected:

Tier	Approach	Types of Investments Offered
Tier 1	One decision funds	Lifecycle funds Stable Value fund
Tier 2	Index funds	Index funds across major asset classes
Tier 3	Actively managed funds	Funds within all major asset classes
Tier 4	Experienced investor	Self Directed Brokerage Account – limited to mutual fund offerings

The Board will offer a variety of options within each tier. Recognizing that some participants consider themselves experienced investors who want more variety, independence, and greater control in managing their deferred compensation portfolio, the Board will permit a participant to select any mutual fund, unless otherwise prohibited, through the Self-Directed Brokerage Account (SDBA). The Board will not monitor or evaluate the mutual funds available within the SDBA.

When selecting investment options, the Board may consider such factors as:

- The size, company staffing and organization, history, reputation, regulatory and legal compliance of the investment firm that manages each investment option.
- The experience of the individual portfolio manager.
- The investment objectives and structure, sector and security diversification.
- Adherence to investment strategy/style drift.
- Its historical risk and return measured against appropriate benchmarks and/or peer groups.
- Avoidance of duplication among investment options.
- The cost to participants, including any purchase or exchange fees, as well as its annual operating expenses.
- The ability to assist participants in meeting their individual investment goals when evaluated with the other available investment options.
- New product/investment opportunity.

Code Section 33-125 (c) prohibits the Board from offering the following investment options:

- **Montgomery County Bonds:** Code Section 33-125 (c)(3) prohibits investment in Montgomery County and Montgomery County-related bonds, notes, or debt instruments, unless those investments are held indirectly through a mutual fund.
- **Pooled Real Estate:** Code Section 33-125 (c)(1)(H) requires that real estate investments be made only in pooled vehicles in which no more than 10% of the pool is invested in real estate located in Montgomery County.

Attached Appendix A provides the current list and will be updated when changes are made. Changes to the investment options available will be made at the sole discretion of the Board, which shall document its decisions in the Board minutes, and communicate all changes to the participants on a timely basis.

Section 33-120(f)(2) requires the Board to provide an annuity distribution option to Plan participants. The Board will provide several vendors, thru the Third Party Administrator, from which a participant may select an annuity option. Annually, the Board will use the following factors to evaluate a provider's claims paying ability and creditworthiness:

- Quality and diversification of the annuity provider's investment portfolio
- Size of the insurer relative to the proposed contract
- Level of insurer's capital and surplus
- Lines of business of the annuity provider and other indications of the insurer's exposure to liability
- Structure of the annuity contract and guarantees supporting the annuities
- State guarantee association protection

Investment Program Oversight

On a quarterly basis, the Board will review and evaluate the investment options offered and the performance of each investment option. (Board staff monitors the options daily and will notify the Board if circumstances warrant immediate action.) The Board will discuss taking action if an investment option fails to satisfy its performance criteria, or if the basis for selecting the investment

option has changed, or if some other material change prompts concern. If such an event occurs that causes concern as to the appropriateness of continuing to offer that investment option, the Board may take one or more of the following actions:

- Establish a probationary period during which any area of concern will be assessed and, if necessary, corrected.
- Supplement the investment option with one or more alternative investment options for that category.
- Replace the investment option with one or more alternative investment options for that category.
- Eliminate the investment option.

Changes to the investment options available will be made at the sole discretion of the Board, which shall document its decisions in the Board minutes, and communicate all changes to the participants on a timely basis. If a fund is eliminated and a replacement fund is added, participants will be notified that if they fail to make an election to move their balance from the eliminated fund prior to the date of transfer, any assets in the eliminated fund will be transferred to the replacement fund.

Selection of Investment Options - Participant

Participants may choose one or more fund option depending on individual investment objectives. Participants may change investment elections at any time (trade restrictions and fees on redemptions may be initiated by a particular option at any time). A participant's direction of investment remains in effect until otherwise changed by the participant. If a participant fails to designate an investment option, the participant's account balance will be invested in the default option, which is currently the applicable lifecycle fund based on the participant's date of birth and projected retirement date.

Participants are advised that they bear all investment risk and earnings on their participant account balances are determined solely by their investment elections. No person who is a fiduciary shall be liable for any loss resulting from the participant's exercise of control over his or her plan account.

Prior to opening an SDBA, participants will be required to sign an agreement acknowledging their understanding that he or she exercises exclusive control over his/her SDBA and that the Board does not select or monitor the mutual funds traded in the SDBA.

Third Party Administrator

The Board, in conjunction with the Chief Administrative Officer, will select a Third Party Administrator (TPA) to perform functions related to administration of the Plan and recordkeeping of participant investment accounts, including: enrollment, exchanges, transfers, distributions, communication, performance and fee information, and periodic individual statements and benefit payments. The TPA will acknowledge that he/she is subject to the standard of care set forth in Code Section 33-61C.

The Board will conduct a review annually, or as necessary, of the TPA, to evaluate the expenses, the revenue sharing arrangements in place, and to determine if the TPA is meeting the administrative requirements as described above.

Investment Education Resources

Section 33-125 (a)(5) requires the Board to make investment counseling services available each year to all Plan participants to provide advice on the investment options available. To meet this requirement, the Board will engage an investment counseling firm to provide two hours of counseling to each participant annually. The Board annually reviews the service provider to ensure that the contract terms are being met and that participants are satisfied with the service provided. Each participant completes a survey after meeting with the service provider to evaluate the satisfaction level with the counseling session.

Participants will have educational resources available to make informed investment decisions based on their investment goals. The TPA will provide investment education and will include materials such as: quarterly statements and newsletters, onsite seminars, one-on-one counseling sessions, representative visits, and internet access services.

The Board has administrative procedures in place with the TPA to ensure that participants receive information on risk factors, fee structures and other issues related to investments. The TPA will provide these materials upon request.

Appendix A – Current Investment Options

Tier Classification	Investment Category	Fund Options*
Tier 1	Lifecycle Funds	<ul style="list-style-type: none"> ♦ Fidelity Freedom 2000 ♦ Fidelity Freedom 2005 ♦ Fidelity Freedom 2010 ♦ Fidelity Freedom 2015 ♦ Fidelity Freedom 2020 ♦ Fidelity Freedom 2025 ♦ Fidelity Freedom 2030 ♦ Fidelity Freedom 2035 ♦ Fidelity Freedom 2040 ♦ Fidelity Freedom 2045 ♦ Fidelity Freedom 2050 ♦ Fidelity Freedom Income ♦
Tier 1	Stable Value Fund	<ul style="list-style-type: none"> ♦ Managed Income Portfolio
Tier 2	Index Funds	<ul style="list-style-type: none"> ♦ Fidelity US Bond Index ♦ Spartan Total Market Index ♦ Spartan US Equity Index ♦ Spartan Extended Market Index ♦ Spartan International Index
Tier 3	Bond/Income Funds	<ul style="list-style-type: none"> ♦ Fidelity Intermediate Bond ♦ Fidelity Capital & Income ♦ Fidelity Inflation-Protected Bond
Tier 3	Balanced/Hybrid Fund	<ul style="list-style-type: none"> ♦ Fidelity Puritan
Tier 3	Real Estate Equity Fund	<ul style="list-style-type: none"> ♦ Fidelity Real Estate Investment
Tier 3	Stock Funds	<ul style="list-style-type: none"> ♦ Fidelity Puritan ♦ Fidelity Contrafund ♦ Fidelity Growth Company ♦ Fidelity Value ♦ Fidelity Equity Income ♦ Fidelity Growth and Income ♦ Fidelity Low Priced Stock ♦ Fidelity Small Cap Stock ♦ Artisan Small Cap
Tier 3	International/Global Stock Funds	<ul style="list-style-type: none"> ♦ Fidelity Diversified International ♦ Templeton World
Tier 4	Self Directed Brokerage Acct.	<ul style="list-style-type: none"> ♦ Fidelity

*Investment options as of June 30, 2006